

Investors expect steep price declines in some markets

Guest perspective: Housing-price futures trade on CME

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Housing-price futures contracts expiring in August 2008 this week began trading on the Chicago Mercantile Exchange and investors appear to have taken all the recent bad real estate news to heart. Investors are expecting deep declines in many formerly hot markets with Miami expected to fall 9.4 percent, Las Vegas 9.2 percent and Los Angeles 8.4 percent by the end of the second quarter of 2008. Markets expected to fall the least are Chicago at 5.3 percent, Denver 6.6 percent and San Francisco 6.8 percent. For the overall 10-city composite index, prices are expected to fall 6.4 percent.

Investor expectations are reflected in housing-price futures and options traded on the Chicago Mercantile Exchange, which are based on a subset of the S&P/Case-Shiller U.S. National Home Price Indices. These property derivatives are traded on indices for a 10-market index and the component markets of that composite. Expectations of future price changes are implied by the percentage difference in the index value for the relevant market (most recently published on Aug. 28, 2007, for June 2007 period) and the current price of the four traded futures contracts expiring in November 2007, February 2008, May 2008 or August 2008.

Contract	June 2007 Index Value (as of 8/28/07)	August 2008 Contract Value (as of 8/28/07)	Implied Price Change
COMPOSITE	\$ 217.07	\$ 203.20	-6.4%
Miami	\$ 264.89	\$ 240.00	-9.4%
Las Vegas	\$ 221.86	\$ 201.40	-9.2%
Los Angeles	\$ 262.12	\$ 240.00	-8.4%
San Diego	\$ 231.37	\$ 212.20	-8.3%
Washington, D.C.	\$ 233.52	\$ 216.40	-7.3%
New York	\$ 208.52	\$ 194.00	-7.0%
Boston	\$ 171.30	\$ 159.40	-6.9%
San Francisco	\$ 209.48	\$ 195.20	-6.8%
Denver	\$ 138.09	\$ 129.00	-6.6%
Chicago	\$ 165.96	\$ 157.20	-5.3%

So how do investor expectations compare to recent housing-price trends? This week, Standard & Poor's released its S&P/Case-Shiller U.S. National Home Price Index for June 2007. The composite index of 20 markets was down 3.5 percent over the 12-month period from June 2006 to June 2007. The 10-city composite was down 4.1 percent, so investor expectations of a housing price decline of 6.4 percent by the end of the second quarter of 2008 imply a significant acceleration in the rate of decline.

As always, there are large differences in housing-price trends in local markets. Of the 20 markets tracked by the indices, 15 showed price decreases and five showed price increases over the last 12-month period. Seattle was up 7.9 percent, Charlotte 6.8 percent and Portland 4.5 percent. Both Atlanta and Dallas showed a nominal increase of 1.6 percent.

Several markets were down dramatically, with Detroit off 11 percent, Tampa down 7.7 percent, San Diego off 7.3 percent and Washington, D.C., down 7 percent during the 12 months between June 2006 and June 2007.

Market	Index Value for June 2006	Index Value for June 2007	Percent Change
20 MARKET COMPOSITE	206.39	199.18	-3.5%
10 MARKET COMPOSITE	226.29	217.07	-4.1%
Seattle	177.81	191.92	7.9%
Charlotte	126.48	135.05	6.8%
Portland	177.72	185.76	4.5%
Dallas	124.52	126.53	1.6%
Atlanta	134.01	136.12	1.6%
Chicago	167.10	165.96	-0.7%
Denver	139.46	138.09	-1.0%
New York	215.83	208.52	-3.4%
Cleveland	122.93	118.54	-3.6%
Boston	177.90	171.30	-3.7%
Minneapolis	170.91	164.35	-3.8%
San Francisco	218.12	209.48	-4.0%
Los Angeles	273.22	262.12	-4.1%
Miami	278.22	264.89	-4.8%
Las Vegas	233.75	221.86	-5.1%
Phoenix	227.42	212.52	-6.6%
Washington, D.C.	250.99	233.52	-7.0%
San Diego	249.60	231.37	-7.3%
Tampa	237.68	219.37	-7.7%
Detroit	123.12	109.57	-11.0%

The composite index and its regional sub-indices use the repeat-sales pricing technique to measure housing markets by collecting data on single-family home re-sales, capturing re-sold sale prices to form sale pairs. Price appreciation or depreciation is more accurately reflected by the change in value of the same properties over time across entire market areas rather than the more volatile median home prices published by the National Association of Realtors.

As always, it's worth remembering that the CME futures contracts are thinly traded relative to much more established contracts for commodities and foreign exchange so they reflect the collective wisdom of fewer investors. But it's one more data point for your crystal ball and not one that leads to a very optimistic conclusion about the future direction of the real estate market.

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